



Determining Dependence on Non-Veterans or Non-Veteran Entities

Issue:

This brief discusses dependent relationships with non-Veterans or non-Veteran entities that may affect a determination of eligibility for applicants.

(For purposes of this brief, Veteran applies equally to Service-Disabled Veterans; applicant refers to the business entity applying for verification; and participant refers to a business entity that has already been verified.)

The Regulation:

38 CFR § 74.4(i)(4) provides that “[n]on-veterans or entities may be found to control or have the power to control...[when]...[b]usiness relationships exist with non-veterans or entities which cause such dependence that the applicant or participant cannot exercise independent business judgment without great economic risk...”

What This Means:

Below are examples that may support a Center for Verification and Evaluation (CVE) finding of dependence that will prohibit an applicant from receiving verified status:

- The applicant is receiving business resources such as employees, equipment, office, and/or warehouse space at little or no cost from a non-Veteran or a non-Veteran entity, and the applicant has not clearly demonstrated how it would be able to continue to operate outside of this relationship without great economic risk. The Veteran is a current or former employee of a minority owner of the applicant and the Veteran lacks the

necessary experience, knowledge or expertise needed to manage the firm. These situations are indicative of potential dependence on non-Veterans or non-Veteran entities. The applicant bears the burden of proving that it is capable of functioning independently of a non-Veteran or entity without great economic risk.

Scope of Review

CVE reviews an applicant’s business documentation as its primary means of determining whether there are dependent relationships with non-Veterans or entities. If your firm has been denied for failure to meet the requirements of 38 CFR § 74.4(i)(4), or if you feel that your business may have relationships with non-Veterans or entities that could lead to a denial of your business’ application, the best way to address these issues is to provide a detailed written explanation and business documentation demonstrating that the Veteran owner(s) has independent resources and makes final controlling decisions with respect to the business operations.

Example

In the event that the applicant is co-located with a larger, more established firm, the applicant might demonstrate that there is no impermissible dependence on the non-Veteran or entity by providing:

- a lease agreement indicating that the applicant pays fair market value for its space
- pictures showing that the applicant occupies separately identifiable space
- documentation of the applicant’s earnings, showing that the applicant is capable of making fair market value payments for its office space

- legally binding contracts or agreements that provide for payment of fair market value for use of the non-Veteran's resources
- payroll records

The examples provided in this brief are for illustrative purposes only.

An applicant may be able to demonstrate compliance with 38 CFR Part 74 by providing other documentation and information. (Note: Providing the documentation described in this brief does not guarantee that the applicant will be found to meet all eligibility requirements necessary for verification.)

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VA Office of Small and Disadvantaged Business Utilization

1-866-584-2344

Monday–Friday | 8 a.m. to 6 p.m. (Eastern)

Status Update:

verificationfollowup@va.gov

Profile Questions: vip@va.gov